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E.O. 11652: N/A

TAGS: EINV, PO

SUBJECT: AMERICAN INVESTMENT PROBLEMS

SUMMARY. BELOW IS AN UP-TO-DATE DESCRIPTION OF THE BACKGROUND AND CURRENT STATUS OF THE MAJOR INVESTMENT DISPUTES INVOLVING AMERICAN FIRMS. IN NOVEMBER 1976 THE EMBASSY PRESENTED PRIME MINISTER SOARES A LIST OF U.S. FIRMS CURRENTLY FACING MAJOR DIFFICULTIES. EMBASSY REPRESENTATION INCLUDED ITT, OTIS ELEVATOR, MUELLER-MORTAGEM, LITTON INDUSTRIES, APPLIED MAGNETICS, AND OTHERS. THE NINETEEN COMPANIES FACING DIFFICULTIES HAVE HAD VARIED SUCCESS IN RESOLVING THEIR PROBLEMS. THIS CABLE SUMMARIZES THEIR SITUATION. END SUMMARY.

1. APPLIED MAGNETICS:

A. APPLIED MAGNETICS PORTUGAL (AMP); PARTNERSHIP ESTABLISHED IN PORTUGAL 1970. IMPORTED COMPONENTS AND MANUFACTURED MAGNETIC HEADS AND COMPUTER MEMORY ASSEMBLIES FOR EXPORT. EMPLOYED 650. TOTALLY AMERICAN-OWNED. AMP WENT BANKRUPT AND CEASED OPERATIONS IN 1974.

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B. AMP'S CANADIAN MANAGER ABANDONED PORTUGAL SUMMER 1974 AFTER: -) APPLIED MAGNETICS CALIFORNIA (AMC) BLAMED GOP FOR CREATING UNSTABLE WORKING CONDITIONS WHICH CAUSED AMP TO DEFAULT ON ITS THREE MILLION ESCUDO DEBT TO EXPIRITO SANTO BANK AND 2) WORKERS' OCCUPIED AMP FACTORY. GOP ADMITS THAT IT OWES AMP TAX REBATE OF TWO MILLION ESCUDOS AND AMP FORMER WORKERS CLAIM COMPANY OWES THEM ABOUT \$800,000 IN

LABOR INDEMNITIES.

C. GOP ATTEMPTED IMPEDE COMPANY BANKRUPTCY PROCEEDINGS AND WORKER DISMISSALS IN 1974. LABOR MINISTRY ALSO SOUGHT RELIEVE EARLY PAYROLL PROBLEMS BY OFFERING SHORT-TERM LOAN, BUT AMP REJECTED OFFER ON GROUNDS THAT IT COULD NOT MEET REPAYMENT TERMS. BANCO ESPIRITO SANTO REPORTEDLY IS SUING AMP IN CALIFORNIA FOR PAYMENT OF LOAN GUARANTEE. AMP HAS FILED COUNTERSUIT, BUT IT HAS EXPRESSED WILLINGNESS TO MEET WITH GOP OFFICIALS IN ORDER TO RESOLVE ALL FINANCIAL CLAIMS.

D. EMBASSY REPS HAVE SUGGESTED TO GOP ON SEVERAL OCCASIONS DURING PAST SIX MONTHS THAT IT ARRANGE MEETING OF ALL INTERESTED PARTIES (LABOR MINISTRY, FINANCE MINISTRY, BANK AND AMC). ECON COUNSELOR AGAIN DISCUSSED SITUATION ON JANUARY 28 WITH HIGH LEVEL GOVERNMENT OFFICIAL WHO PROMISED ORGANIZE SUCH A MEETING. THIS CASE IS INCLUDED ON LIST OF COMPANY PROBLEMS PRESENTED TO THE PRIME MINISTER AND THE FINANCE MINISTER IN EARLY NOVEMBER 1976. AMP WORKERS, MEANWHILE CONTINUE TO DEMONSTRATE PUBLICLY FOR PAYMENT OF THEIR SEPARATION INDEMNITIES. MACHINERY AND EQUIPMENT REMAIN IN AMP'S RENTED BUILDING. EMBASSY UNDERSTANDS LEGAL SUITS NOT BEING ACTIVELY PROSECUTED.

2. BENSALDE:

A. BEATRICE FRANTZ, NEE BENSALDE, U.S. CITIZEN, CLAIMS TO OWN SHARES WORTH \$460,000 AT PAR VALUE, CONSTITUTING 2 PERCENT OF A TABAQUEIRA, SARL. ANOTHER U.S. CITIZEN, RAQUEL BENSALDE SALLES, CLAIMS TO OWN UNKNOWN NUMBER OF SHARES IN FABRICA DE TABACOS. BENSALDE FAMILY WAS ONE OF RICHEST, BEST-KNOWN FAMILIES IN AZORES. TIES TO PORTUGUESE-AMERICAN LIMITED OFFICIAL USE

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COMMUNITY IN MASSACHUSETTS VERY CLOSE, BOTH FINANCIALLY AND PERSONALLY.

B. BOTH FIRMS NATIONALIZED BY GOP MAY 1975. NO COMPENSATION HAS BEEN PAID.

C. CLAIMANTS HAVE DISCUSSED SITUATION WITH EMBASSY OFFICERS, BUT HAVE NOT SPECIFICALLY REQUESTED EMBASSY ASSISTANCE.

3. CUETARA BOLACHAS DE PORTUGAL, SARL:

A. CUETARA BOLACHAS DE PORTUGAL, SARL, MAKES COOKIES, CANIES, BISCUITS AND OTHER FLOUR PRODUCTS. OWNERSHIP IS 39 PERCENT AMERICAN, 50 PERCENT MEXICAN, AND 11 PERCENT PORTUGUESE. ESTABLISHED 1973; REGISTERED CAPITAL \$750,000. LOCAL FACTORY IS PART OF CONSORTIUM THAT HAS FACTORIES IN SPAIN AND MEXICO. LOCAL COMPANY EMPLOYS ABOUT 100.

B. WORKERS TOOK CONTROL OF COMPANY IN 1975. THEY SUBSEQUENTLY RETURNED IT TO OWNERS, BUT AGAIN SEIZED CONTROL IN SEPTEMBER 1976. A NEW LAW IN NOVEMBER 1976 FREEZING STATUS OF WORKER-CONTROLLED FIRMS HAS PRE-

VENTED WONERS FROM TAKING JUDICIAL ACTION FOR RESTITUTION.
WORKERS RECEIVED OFFICIAL GOP DOCUMENT ON NOVEMBER 30,
1976 AUTHORIZING THEM TO OPERATE FACTORY. CUETARA
OWNERS CLAIM THIS AUTHORIZATION FRAUDULENTLY BACKDATED
TO EARLY NOVEMBER BY LABOR MINISTRY.

C. EMBASSY HAS DISCUSSED DISPUTE WITH FIRM'S OWNERS
AND THEIR LAWYERS, WITH MEXICAN EMBASSY AND INFORMALLY
WITH MINISTRY OF LABOR. WHEN COMMATT MENTIONED FIRM'S
CHARGE OF FRAUD, THE CHIEF STAFF ASSISTANT OF THE
SECRETARY OF STATE FOR LABOR PROMISED TO INVESTIGATE.
HE SUBSEQUENTLY REPORTED THAT CHARGE WAS UNFOUNDED. LABOR
MINISTRY ISSUED NEW AUTHORIZATION TO WORKERS ON JANUARY 1.

4. CONLUS:

A. CONLUS - CONFECCOES LUSUS, ESTABLISHED 1966,
PRODUCED BRASSIERES AND GIRDLES. LARGEST SHAREHOLDER IS FIRM
EXQUISITE FORM INDUSTRIES. OWNED BY U.S., UK AND CANADIAN
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INTERESTS. EMPLOYED 400 WORKERS.

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CAPITAL ABOUT \$80,000.

B. FIRM HAS HISTORY OF LABOR DIFFICULTIES. WORKERS CHARGED FIRM WITH NONPAYMENT OF THIRTEENTH-MONTH BONUSES FOR 1975, RETROACTIVE SALARIES AND SOCIAL SECURITY TAXES TOTALLING \$120,000.

C. TO DATE EMBASSY NOT CONTACTED OFFICIALLY BY GOP, WORKERS OR EXQUISITE FORM. LABOR MINISTRY CONSULTANT RECENTLY ASKED EMBASSY TO CONTACT EQUISITE FORM ABOUT POSSIBILITY OF LEASING BUILDING AND MACHINERY SO CONLUS CAN BECOME OPERATING DIVISION OF A PROPOSED NATIONAL TEXTILE COOPERATIVE. NO RESPONSE RECEIVED.

D. COMMATT UNDERSTANDS THAT 400 WORKERS CONTINUE TO GO TO PLANT, BUT NO RAW MATERIALS AVAILABLE. UK EMBASSY REPORTS THAT CONLUS WAREHOUSE FULL OF HALF FINISHED BRASSIERES; NO HOOKS OR EYES AVAILABLE TO COMPLETE THEM. REPORTEDLY LEADERS OF CONLUS WORKERS ARE ON EXTREME LEFT OF POLITICAL SPECTRUM.
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5. GENERAL INSTRUMENTS CORPORATION:

A. GENERAL INSTRUMENTS CORPORATION EMPLOYS 750 WORKERS AND FABRICATES CAPACITORS AND DEFLECTION COMPONENTS FOR TELEVISION INDUSTRY. BASIC MARKET IS IN UK, FOLLOWED BY U.S. AND OTHER COUNTRIES. COMPANY FACES TWO BASIC PROBLEMS. IT STATES IT WILL HAVE TO TERMINATE OPERATIONS IN PORTUGAL IF IT IS FORCED TO PAY THREATENED \$7 MILLION FINE FOR CUSTOMS VIOLATIONS. PROBLEMS EXACERBATED BY CLAIM FROM UK FOR DUTIES RELATED TO SAME VIOLATIONS. COMPANY, WHICH HAS EXPERIENCED GENERAL DOWNTURN IN MARKET DEMAND, FINDS ITSELF WITH 250 REDUNDANT WORKERS WHOM GOP HAS NOT PERMITTED IT TO DISMISS. OPTIONS RANGE FROM CLOSING DOWN FACTORY TO MAKING NEW INVESTMENT AND SEEKING MARKET IN WEST GERMANY.

B. EMBASSY HAS DISCUSSED CASE AT ALL STAGES WITH GOP OFFICIALS, INCLUDING PRIME MINISTER, MINISTERS OF LABOR AND FINANCE, AND SECRETARIES OF STATE FOR EMPLOYMENT, LABOR AND PLANNING. DISCUSSIONS LED TO RESOLUTION OF SEVERAL MINOR PROBLEMS AND TO TEMPORARY RELIEF FOR COMPANY'S FINANCIAL PROBLEMS, BUT DID NOT SOLVE THE FIRM'S TWO MAJOR DIFFICULTIES. GENERAL INSTRUMENT OFFICIALS MET EARLY JANUARY WITH PRIME MINISTER SOARES TO DISCUSS BOTH ISSUES. MEETINGS CONTINUE AND ARE ENCOURAGING, BUT OUTCOME IS STILL UNCERTAIN.

6. IMPERIAL LINENS:

A. IMPERIAL DE BORDADOS, LDA, FUNCHAL, MADEIRA, U.S.-
CITIZEN OWNED. COMPANY MANUFACTURES HAND-EMBROIDERED
ARTICLES FOR EXPORT TO U.S., EUROPE, ENGLAND AND SOUTH
AMERICA.

B. COMPANY'S INCREASED WAGE AND OVERHEAD COSTS
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HAVE DOUBLED RETAIL PRICES OF ITS PRODUCTS AND CAUSED
CONSIDERABLE DROP IN SALES. RESULT IS NEED FOR STAFF
REDUCTIONS, A PROCESS NECESSITATING LARGE SEVERANCE PAY-
MENTS. UNLESS COMPANY CAN REDUCE STAFF, IT WILL GO OUT
OF BUSINESS.

C. FIRM REQUESTED EMBASSY ADVICE IN AUGUST 1976.
COMMITTEE RESPONDED THAT COMPANY SEEK AID FROM GOP FUND
ESTABLISHED IN 1975 TO HELP EMBROIDERY INDUSTRY. CASE ON
LIST PRESENTED TO PRIME MINISTER IN NOVEMBER 1976. FIRM
HAS NOT REPORTED SUBSEQUENT DEVELOPMENTS.

7. LATRIQUE:

A. LATRIQUE, OWNED BY LATRIQUE BRASSIERES CO., INC.
NEW YORK. FACTORY, WITH 253 EMPLOYEES, COMPLETES FINAL
ASSEMBLY OF BRASSIERES.

B. IN AUGUST 1975 EMBASSY LEARNED THAT OWNER PETER
VALES, USC, HAD ABANDONED FIRM WITHOUT PAYING SALARIES,
SEVERANCE PAY, AND OTHER DEBTS. TOTAL ESTIMATED AT
\$120,000. COMPANY HAS, MOREOVER, CONSIDERABLE DEBTS TO
LOCAL BANKS AND SUPPLIERS.

C. EMBASSY OFFICER ATTENDED MEETING IN LABOR MINISTRY
AT WHICH WORKERS' COMMISSION AND MINISTRY REQUESTED
EMBASSY ASSISTANCE. EMBASSY CONTACTED DEPT BUT INITIATIVE
LED TO NO RESOLUTION. IN JANUARY 1977 MINISTRY AGAIN
APPROACHED COMMITTEE TO ELICIT VALE'S COOPERATION. GOP
OFFERED, IN EFFECT, TO PAY RENTAL FEE IN RETURN FOR
USE OF PLANT AND EQUIPMENT. IT SIMULTANEOUSLY THREATENED
ADMINISTRATIVE BANKRUPTCY PROCEEDINGS AGAINST FIRM IF
AGREEMENT NOT CONCLUDED. DISCUSSIONS HAVE THUS FAR PRODUCED
NO DEFINITE RESULTS. FACTORY, OPERATING AT REDUCED RATE
UNDER WORKERS' MANAGEMENT, REPORTEDLY HAS CONTRACT WITH US PARENT.

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8. LITTON INDUSTRIES:

A. LITTON INDUSTRIES, EMPLOYED ABOUT 90 PEOPLE, DISTRIBUTED AND SERVICED SWEDA, MONROE, LITTON AND ROYAL DESK CALCULATORS, CASH REGISTERS AND OTHER BUSINESS MACHINES.

B. IN SEPTEMBER 1975 LITTON DECIDED TO CEASE OPERATIONS BECAUSE IT CONSIDERED FIRM "FINANCIALLY MARGINAL" AS RESULT OF DEPRESSED MARKET DEMAND AND SEVERE LABOR PROBLEMS. COMPANY OFFERED TO SELL, UNDER "PROPER CREDIT ARRANGEMENTS," ITS ASSETS TO COOPERATIVE FORMED BY ITS WORKERS. INDEMNIFICATION NOT A PROBLEM.

C. COMMATT DISCUSSED PROBLEM INFORMALLY WITH WORKERS AND WITH LITTON DURING 1975. IN EARLY 1976 LABOR MINISTRY CONTACTED EMBASSY REQUESTING CLARIFICATION OF LITTON POSITION IN PORTUGAL. IN RESPONSE TO EMBASSY INQUIRY, LITTON REPEATED ITS OFFER OF 1975. CASE WAS INCLUDED ON LIST PRESENTED TO PRIME MINISTER SOARES IN NOVEMBER.

9. EMILE MARGHAB, INC:

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A. EMILE MARGHAB, INC., PRODUCES HANDMADE EMBROIDERED LINENS IN MADEIRA. NEW YORK-BASED COMPANY BELONGS TO MRS. VERA MARGHAB, U.S. CITIZEN. FIRM HAS ONLY A FEW PERMANENT FULL-TIME EMPLOYEES. IT RELIES ON HUNDREDS OF PART-TIME "COTTAGE INDUSTRY" WORKERS.

B. IN EARLY 1975 WORKER DISCIPLINE DETERIORATED, WAGES

INCREASED, AND MARKET DEMAND DROPPED. COMPANY REPORTS IT WOULD BE UNABLE MAKE SEVERANCE PAYMENTS IN CASE OF LIQUIDATION. WORKERS EXPRESSED THEIR DESIRE TO TAKE OVER COMPANY AND PERSONAL PROPERTY OF MRS. MARGHAB.

C. EMBASSY ADVISED MRS. MARGHAB TO OBTAIN LEGAL COUNSEL AND TO INVESTIGATE LEGAL REGULATIONS CONCERNING MASS DISMISSALS OR BANKRUPTCY. EMBASSY DOES NOT KNOW WHETHER MRS. MARGHAB TOOK ANY CONCRETE ACTION. COMMATT HAS DISCUSSED THE SITUATION INFORMALLY WITH LABOR MINISTRY AND IS ON LIST PRESENTED TO PRIME MINISTER SOARES.

10. MARRIOTT PORTUGAL, LDA.:

A. MARRIOTT PORTUGAL, LDA., WITH SOME 250 EMPLOYEES, CATERS TO ELEVEN INTERNATIONAL AIRLINES SERVING LISBON.

B. LOCAL MANAGER ESTIMATES MARRIOTT HAS INVESTED \$3 MILLION IN PORTUGAL. HE CLAIMS 50 PERCENT REDUCTION IN BUSINESS, DECLINING PRODUCTIVITY AND INCREASED WAGES HAVE CAUSED \$17,000 AVERAGE MONTHLY OPERATING LOSSES DURING PAST THREE YEARS. RESULT IS THAT MARRIOTT HOPES TO LAY OFF 52 WORKERS IN APRIL, WITH PAYMENT OF FULL INDEMNIFICATION.

C. GOP CURRENTLY STUDYING MARRIOTT LAY-OFF PROPOSAL. EMBASSY HAS BROUGHT THIS CASE TO ATTENTION OF THE SECRETARY OF STATE FOR EMPLOYMENT AND PRIME MINISTER SOARES.

11. MUELLER MONTAGEM, LTD:

A. MUELLER MONTAGEM, LTD. - CONSTRUCTION COMPANY SPECIALIZING IN HEAVY ERECTION AND RIGGING WORK. COMPANY ESTABLISHED 1967, 95 PERCENT OWNED BY U.S. CITIZEN LIMITED OFFICIAL USE

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PAUL MUELLER AND 5 PERCENT BY HIS GERMAN WIFE. EMPLOYS 70 PERSONS; ESTIMATES WORTH \$600,000. MUELLER OWNS A SIMILAR COMPANY IN GERMANY EMPLOYING PORTUGUESE WORKERS.

B. WORKERS TOOK CONTROL OF PREMISES IN MARCH 1976 AND PREVENTED MUELLER FROM RETURNING. GOP AND WORKERS ALLEGED MUELLER MONTAGEM HAD NOT PAID ITS SOCIAL SECURITY TAXES AND THE MUELLER WAS MILKING COMPANY. ALLEGED ACTIVITIES WERE SUPPOSEDLY LEADING TO BANKRUPTCY, WITH OBVIOUS THREAT TO WORKERS' JOBS.

C. EMBASSY VISITED LABOR MINISTRY, DISCUSSED SITUATION WITH WORKERS' COMMITTEE AND MADE INFORMAL REPRESENTATION TO GOP. MUELLER MONTAGEM IS ONE OF PROBLEMS PRESENTED TO PRIME MINISTER SOARES IN NOVEMBER 1976. GOP ORIGINALLY DETERMINED THAT CASE WAS SIMPLY A LABOR DISPUTE. IN LATE 1976 GOP ADMINISTRATIVELY DECLARED FIRM BANKRUPT, WITHOUT CONTACTING MUELLER, AND RECOMMENDED THAT EMPLOYEES AND ASSETS BE MERGED INTO THE PORTUGUESE ERECTION COMPANY, TONLUS. WORKERS ORIGINALLY HAD DEMANDED THIS

SOLUTION, BUT ALLEGEDLY HAVE SINCE REQUESTED MUELLER'S
RETURN TO THE FIRM.

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D. MUELLER HAS FILED THREE COURT SUITS AGAINST GOP AND
EMPLOYEES, ONE OF WHICH WAS SUCCESSFUL, PERMITTING MUELLER TO HAVE
ACCESS TO FIRM RECORDS. WORKERS CONTINUE TO LEASE EQUIPMENT TO
OTHER FIRMS AND TO PAY THEIR SALARIES FROM THE RENTAL RECEIPTS.

12. ITT:

ITT IS AN ESPECIALLY COMPLEX PROBLEM BECAUSE IT
ENCOMPASSES SIX COMPANIES, CURRENTLY WITH DIFFERENT
TYPES OF MANAGEMENT, GOVERNMENT INFLUENCE, AND INTER-
COMPANY RELATIONSHIPS. FOR BACKGROUND AND CURRENT
STATUS THIS ISSUE, SEE FOLLOWING: LISBON 561,
LISBON 296, 76 LISBON 8492, 76 LISBON 5208, 76 SECSTATE
5321 AND 76 LISBON A-291 OF OCTOBER 15. GOP RESPONSE TO LATEST
ITT PROPOSAL DUE ON FEBRUARY 9.

13. AUDIO MAGNETICS:

A. AUDIO MAGNETICS, LTD., AN ELECTRONICS ASSEMBLY
PLANT, IS SUBSIDIARY OF MAGNETICS CORPORATION OF GARDENA,
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CALIFORNIA. EMPLOYS ABOUT 800 IN PLANT LOCATED NORTH OF LISBON.

B. COMPANY WISHES TO REDUCE ITS WORK FORCE BECAUSE OF THE DECLINE IN ITS MARKETS, BUT HAS BEEN UNABLE OBTAIN GOVERNMENT PERMISSION. EMBASSY HAS NOT BEEN OFFICIALLY ASKED FOR ASSISTANCE AND HAS MADE NO REPRESENTATIONS. INFORMAL TALKS BETWEEN FIRM AND GOP CONTINUE.

14. SITENOR:

A. SOCIEDADE DE INDUSTRIAS TEXTILES DO NORTE SARL (SITENOR) IS 40 PERCENT OWNED BY LUDLOW CORPORATION AND 49 PERCENT OWNED BY COMPANHIA UNIAO FABRIL (CUF). PRODUCES JUTE BACKING FOR CARPETS. FIRM WORTH ABOUT \$5 MILLION AND EMPLOYS ABOUT 800.

B. SITENOR PROBLEM INCLUDES HIGH COSTS OF PRODUCTION, LOW PRODUCTIVITY, AND TENSION BETWEEN LUDLOW AND ITS NATIONALIZED CHIEF PARTNER, CUF. SITENOR HAS PROPOSED LAY-OFF OF WORKERS OR SALE OF ITS PORTION TO GOP IN ORDER RESOLVE PROBLEM. FLASH POINT MAY OCCUR THIS MONTH WHEN LUDLOW ATTEMPTS TO FORCE A DECISION TO DECLARE AND PAY DIVIDENT EARNED IN 1974. GOP REPRESENTATIVES ON BOARD OF DIRECTORS (CUF) EXPECTED TO AGAIN VOTE AGAINST PAYMENT OF DIVIDEND. LUDLOW HAS IMPLIED THAT IT WOULD CONSIDER NEGATIVE DECISION AS AN INDICATION THAT ITS PARTNER (GOP) NOT INTERESTED IN OPERATING FIRM UNDER NORMAL BUSINESS METHODS, GIVING LUDLOW GROUNDS FOR MAKING EXPROPRIATION CLAIM TO OPIC.

C. OPIC REPRESENTATIVE HAS DISCUSSED SITUATION WITH ONE BOARD MEMBER. EMBASSY HAS NOT BEEN ASKED TO MAKE OFFICIAL REPRESENTATION TO GOP.

EUROMO:
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15. EUROMO, OWNED BY U.S. CITIZEN MARTIN BALZER, WAS SMALL FURNITURE MANUFACTURING AND RESTORATION FIRM IN SMALL TOWN NEAR LISBON THAT EMPLOYED 13 WORKERS. BALZER ALSO OWNED PROFITABLE ANTIQUE SALES OPERATION. HE REPORTEDLY WENT TO U.S. IN MID-1976 AND HAS NOT RETURNED. WORKERS ATTEMPTED CONTACT COMMATT IN JANUARY TO REQUEST ASSISTANCE. THEY INFORMED COMM SECTION STAFF THAT BALZER OWED SALARIES AND OTHER BILLS AND WOULD NOT

RESPOND TO THEIR LETTERS. EMBASSY HAS NO OTHER INFORMATION.

16. CIES:

A. COMPANHIA INDUSTRIAL EXPORTADORA DE SINTRA (CIES),
MANUFACTURER OF LADIES COATS AND ACCESSORIES, WAS OWNED
BY U.S. CITIZEN CHARLES BOYLE IN PARTNERSHIP WITH ENGLISH
CITIZEN. FIRM EMPLOYED ABOUT 20. BOYLE ALSO OWNED PART
OF FASHIONABLE BOUTIQUE IN CASCAIS AND WAS MONTGOMERY
WARD REPRESENTATIVE IN PORTUGAL.

B. BOYLE LEFT PORTUGAL IN JANUARY 1976, PRESUMABLY
BECAUSE HE COULD NEITHER CONTINUE TO MEET PAYROLL NOR
DISMISS EXCESS WORKERS. ENGLISH PARTNER LEFT SHORTLY
AFTERWARDS. WORKERS REQUESTED INTERVENTION OF MINISTRY
OF LABOR; MINISTRY ASKED COMMATT TO TAKE KEYS AND RESPONSIBILITY
FOR FACTORY BUT LATTER REJECTED MINISTRY PROPOSAL.
COMMATT CONTACTED BOYLE IN APRIL
1976 IN BRAZIL TO REQUEST INSTRUCTIONS FOR FIRM'S
LEGAL REPRESENTATIVE IN PORTUGAL. EMBASSY HAS TAKEN NO
OTHER ACTION AND HAS NO INFORMATION ABOUT CURRENT STATUS
OF EITHER CIES OR BOUTIQUE.

17. FABRICA DE CONJUNTOS ELECTRONICOS (FACEL):

A. FACEL, SUBSIDIARY OF ADVANCE ROSS CORPORATION,
MANUFACTURES ELECTRONIC COMPONENTS FOR TELEVISION INDUSTRY.
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EMPLOYS 480.

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B. BECAUSE OF DECLINE IN TELEVISION RECEIVER INDUSTRY, COMPANY TURNED TO MORE ADVANCED PRODUCTS. IT HAS NOT, HOWEVER, BEEN ABLE TO DISMISS EXCESS EMPLOYEES. AS RESULT, IT ACCUMULATED VERY HEAVY DEBTS. PARENT COMPANY REFUSED FURTHER INVESTMENT. FIRM CURRENTLY NEGOTIATING FOR SEVERAL HUNDRED THOUSAND DOLLAR LOAN FROM PORTUGUESE BANKING SYSTEM. IF LOAN NOT GRANTED, FACIL MAY HAVE TO LIQUIDATE. AS AN INTERIM MEASURE, GOP HAS REPORTEDLY AGREED TO PAY 40 PERCENT OF WORKERS' SALARIES DURING NEXT THREE MONTHS. FIRM CLAIMS SECRETARY OF STATE FOR EMPLOYMENT HAS AGREED TO SUPPORT FACEL LOAN REQUEST.

18. TWA: TWA HAS REQUESTED DIRECTOR GENERAL OF AVIATION AUTHORIZATION TO LAND AT LAJES AIR BASE, IN ADDITION TO SANTA MARIA. REQUEST BASED ON BILATERAL CIVIL AVIATION AGREEMENT GIVING AMERICAN CARRIERS ACCESS TO THE AZORES. GOP REFUSAL BASED ON SECURITY ARGUMENTS. IT APPEARS THAT THE TRUE REASON IS GOP'S DESIRE TO PROTECT TAP'S COMMERCIAL INTERESTS, AT THE EXPENSE OF TWA. EMBASSY HAS RECOMMENDED THAT CAB CALL FOR HEARINGS
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TO DETERMINE WHETHER CURRENT SITUATION VIOLATES BILATERAL AGREEMENT AND WHETHER TAP FLIGHTS UTILIZING LAJES SHOULD BE PROHIBITED FROM OPERATING IN U.S. ECON COUNSELOR WILL CALL ON SECRETARY OF STATE FOR TRANSPORTATION AND ON DIRECTOR FOR ECONOMIC AFFAIRS, FOREIGN MINISTRY, TO PRESENT U.S. LEGAL ARGUMENTS. WE HAVE, MEANWHILE RECEIVED INDICATION THE PRESSURE FROM THE AZORES MAY BE MOVING GOP TOWARD A SOLUTION OF THIS PROBLEM.

19. OTIS ELEVATOR:

A. FORTIS-OTIS PORTUGUESE, 100 PERCENT U.S. OWNED, EMPLOYED ABOUT 300 IN ASSEMBLY AND SERVICE OF ELEVATORS AND MANUFACTURING OF PARTS FOR OTIS INTERNATIONAL.

B. FIRM HAD CONTINUOUS LABOR PROBLEMS FROM APRIL 25, 1974 COMPOUNDED BY RECESSION IN CONSTRUCTION INDUSTRY. BOTH IN EUROPE AND PORTUGAL. OTIS U.S. CITIZEN MANAGER LEFT COUNTRY UNDER THREAT OF WORKER PURGE IN EARLY 1975 AND HIS SUCCESSOR, A FRENCH CITIZEN, DEPARTED IN MAY

1975 AFTER LOCK-OUT OF MANAGEMENT AND PERSONAL HARASSMENT. FACTORY CONTINUED TO OPERATE AT REDUCED CAPACITY AT LEAST INTO MID-1976. REPORTEDLY, UNTIL MID-1976 FIRM DID NOT REQUIRE OFFICIAL GOP FINANCING WHILE UNDER WORKER CONTROL; IT PAID SALARIES THROUGH SALES OF MAINTENANCE SERVICE AND ASSEMBLY OF ELEVATORS FROM INVENTORY.

C. GOP CONTACTED COMMATT IN FEBRUARY 1976 REQUESTING ASSISTANCE IN ARRANGING MEETING TO RESOLVE PROBLEM. MEETINGS WERE HELD IN MARCH AND EARLY APRIL BUT NEGOTIATIONS THEN BROKEN OFF, POSSIBLY BECAUSE OF CONCERN THAT CASE WOULD BECOME POLITICAL FOOTBALL IN 1976 ELECTIONS. OTIS EXECUTIVES REPORTED PLANT, MACHINERY AND FINANCIAL RECORDS INTACT AT THAT TIME. GOP PROPOSED THAT OTIS RETURN TO PORTUGAL AND ARRANGE CORPORATE INTEGRATION WITH LARGE, BANKRUPT PORTUGUESE ELEVATOR FIRM, COMPORTEL.
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D. EMBASSY HAS NO INFORMATION ON PRESENT STATUS FACTORY.

20. COMMENT: ASIDE FROM TWA, AMERICAN FIRMS ENCOUNTERING TWO BASIC PROBLEMS: REDUCTION IN MARKET DEMAND AND LABOR LEGISLATION PREVENTING DISMISSALS. ALTHOUGH SECRETARY OF STATE FOR EMPLOYMENT PROBLEMS, HE PERSONALLY OPPOSES REDUCTION-IN-FORCE. WE HAVE ASKED GOP TO FORM A SINGLE, POWERFUL ADMINISTRATION UNIT TO HANDLE THESE COMPANIES' PROBLEMS ON BEHALF OF ALL GOP MINISTRIES, BUT NO SUCH UNIT HAS BEEN ESTABLISHED. AS A RESULT, EACH MINISTRY TREATS EACH PROBLEM ON A PARTIAL, NONCOORDINATED BASIS.

21. THE AMBASSADOR, ON A NUMBER OF OCCASIONS, HAS EMPHASIZED TO THE PRIME MINISTER THE IMPORTANCE OF RESOLVING THESE DISPUTES IN ORDER TO ATTRACT FOREIGN INVESTMENT AND IN ORDER TO PROMOTE ECONOMIC RECOVERY. ALSO, HE HAS NOTED THAT INACTION ON THESE CASES COULD PREJUDICE THE WEST'S EFFORTS TO FORM A CONSORTIUM FOR THE \$1.5 BILLION MEDIUM-TERM LOAN.

22. THE FOREGOING LIST MAY NOT INCLUDE ALL OF THE COMPANIES FACING INVESTMENT DIFFICULTIES. CASES MAY EXIST WHICH HAVE NOT BEEN BROUGHT TO THE EMBASSY'S ATTENTION, ESPECIALLY IF THE COMPANIES WERE VERY SMALL OR THEIR OWNERSHIP INCLUDED PORTUGUESE AND THIRD COUNTRY NATIONALS. IN ADDITION, A NUMBER OF FIRMS HAVE FACED DIFFICULT OPERATING CONDITIONS OR ARE UNCERTAIN ABOUT THEIR FUTURE, E.G. FIRESTONE, THE AUTOMOTIVE COMPANIES. MOREOVER, AN UNKNOWN NUMBER OF AMERICANS OWNED SHARES IN THE COMPANIES WHICH HAVE BEEN

NATIONALIZED. UNTIL THE GOVERNMENT PROVIDES EFFECTIVE
COMPENSATION, STOCKHOLDERS WILL UNDOUBTEDLY CONTINUE TO PRESS
THEIR CLAIMS.

23. IN ADDITION TO ABOVE, A NUMBER OF OTHER MULTINATIONAL
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COMPANIES WITH PROBLEMS ARE COMMONLY IDENTIFIED IN THE PRESS
AS BEING U.S.-OWNED. MOST NOTABLE IS THE NORWEGIAN FIRM
TIMEX, WHICH HAS HAD CHRONIC LABOR PROBLEMS. ANOTHER IS
SIGNETICS, AN ELECTRONIC PARTS MANUFACTURING FIRM WHICH
IS SEEKING TO LAY OFF EMPLOYEES OR TO CLOSE DOWN.
SIGNETICS IS U.S. BASED, BUT OWNERSHIP PASSED TO DUTCH
FIRM PHILIPS IN 1976.
CARLUCCI

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Message Attributes

Automatic Decaptioning: X
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Executive Order: N/A
Errors: N/A
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Subject: AMERICAN INVESTMENT PROBLEMS SUMMARY. BELOW IS AN UP-TO-DATE DESCRIPTION OF THE BACKGROUND AND CURRENT STATUS OF THE MAJOR INVESTMENT DISPUTE
TAGS: EINV, PO, US
To: STATE
Type: TE
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Review Markings:
Margaret P. Grafeld
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US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009